

Mr. David Culpepper, Senior Reimbursement Analyst
Paragon Health Network, Inc.
One Ravinia Drive, Suite 1500
Atlanta, Georgia 30346

Re: AC# 3-JOL-J5 – GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center

Dear Mr. Culpepper:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1994 through September 30, 1995. That report was used to set the rate covering the contract periods beginning October 1, 1996.

We are recommending that the Department of Health and Human Services certify an accounts payable for amounts underpaid as a result of the rate changes shown on Exhibit A. You will be notified of settlement terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Edgar A. Vaughn, Jr., CPA
State Auditor

EAVjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

**GCI JOLLEY ACRES, INC.,
D/B/A JOLLEY ACRES HEALTHCARE CENTER
ORANGEBURG, SOUTH CAROLINA**

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1996
AC# 3-JOL-J5**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1996	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1996 THROUGH MARCH 31, 1997	B-1	4
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD APRIL 1, 1997 THROUGH SEPTEMBER 30, 1997	B-2	5
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1995	C	6
ADJUSTMENT REPORT	1	8
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	12

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 27, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center, for the contract periods beginning October 1, 1996 and for the twelve month cost report period ended September 30, 1995, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center dated as of September 30, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 27, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA
State Auditor

JOLLEY ACRES HEALTHCARE CENTER

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1996
AC# 3-JOL-J5

	<u>10/01/96-</u> <u>03/31/97</u>	<u>04/01/97-</u> <u>09/30/97</u>
Adjusted reimbursement rate	\$65.61	\$65.61
Interim reimbursement rate (1)	<u>65.55</u>	<u>65.55</u>
Increase in reimbursement rate	\$ <u>.06</u>	\$ <u>.06</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 1997

JOLLEY ACRES HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1996 Through March 31, 1997
AC# 3-JOL-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.29	\$26.52	\$46.93	\$26.52
Dietary	<u>.73</u>	<u>8.07</u>	<u>10.45</u>	<u>8.07</u>
Subtotal	<u>\$4.02</u>	34.59	57.38	34.59
Laundry/Housekeeping/Maint.	\$1.08	5.38	7.17	5.38
Administration & Med. Rec.	<u>-</u>	<u>8.56</u>	<u>7.82</u>	<u>7.82</u>
Subtotal	<u>\$1.08</u>	48.53	<u>\$72.37</u>	47.79
<u>Costs Not Subject to Standards:</u>				
Utilities		2.19		2.19
Special Services		-		-
Medical Supplies & Oxy.		2.39		2.39
Taxes and Insurance		1.38		1.38
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$54.49</u>		53.75
Inflation Factor (4.90%)				2.63
Cost of Capital				7.31
Cost of Capital Limitation				(.08)
Profit Incentive (Max. 3.5% of Allowable Cost)				1.08
Cost Incentive - For Gen. Serv. & Dietary				4.02
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(3.35)
Minimum Wage Add On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$65.61</u>

JOLLEY ACRES HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1997 Through September 30, 1997
AC# 3-JOL-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.50	\$26.52	\$49.99	\$26.52
Dietary	<u>.73</u>	<u>8.07</u>	<u>10.45</u>	<u>8.07</u>
Subtotal	<u>\$4.23</u>	34.59	60.44	34.59
Laundry/Housekeeping/Maint.	\$1.08	5.38	7.17	5.38
Administration & Med. Rec.	<u>-</u>	<u>8.56</u>	<u>7.82</u>	<u>7.82</u>
Subtotal	<u>\$1.08</u>	48.53	<u>\$75.43</u>	47.79
<u>Costs Not Subject to Standards:</u>				
Utilities		2.19		2.19
Special Services		-		-
Medical Supplies & Oxy.		2.39		2.39
Taxes and Insurance		1.38		1.38
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$54.49</u>		53.75
Inflation Factor (4.90%)				2.63
Cost of Capital				7.31
Cost of Capital Limitation				(.08)
Profit Incentive (Max. 3.5% of Allowable Cost)				1.08
Cost Incentive - For Gen. Serv. & Dietary				4.23
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(3.56)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$65.61</u>

JOLLEY ACRES HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-JOL-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$ 577,068	\$ -	\$ 2,744 (5) 121 (5) 2,017 (6) 122 (6) 6,844 (7) 457 (7) 17,184 (8)	\$ 547,579
Dietary	170,349	-	1,749 (4) 412 (5) 313 (6) 1,279 (7) 10 (9)	166,586
Laundry	26,854	36 (7)	87 (5) 71 (6)	26,732
Housekeeping	48,939	359 (10)	98 (5) 143 (6) 593 (7) 359 (11)	48,105
Maintenance	36,083	263 (10) 683 (12)	61 (5) 67 (6) 293 (7) 264 (11)	36,344
Administration & Medical Records	182,670	2,070 (8) 352 (10)	1,774 (3) 2,487 (4) 227 (5) 265 (6) 58 (6) 871 (7) 145 (7) 497 (11) 2,008 (12)	176,760
Utilities	42,433	308 (10) 2,859 (12)	314 (11)	45,286

JOLLEY ACRES HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-JOL-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Special Services	-	-	-	-
Medical Supplies & Oxygen	55,217	-	4,486 (4) 1,450 (9)	49,281
Taxes & Insurance	23,726	160 (10) 5,462 (12)	898 (11)	28,450
Legal Fees	-	-	-	-
Cost of Capital	146,577	230 (10) 6,278 (13)	1,874 (1) 52 (2) 229 (11)	150,930
Subtotal	1,309,916	19,060	52,923	1,276,053
Ancillary	24,724	-	-	24,724
Non-Allowable	217,399	1,874 (1) 46 (2) 1,774 (3) 8,722 (4) 10,446 (7) 15,114 (8) 1,460 (9) 2,561 (11)	5 (6) 1,672 (10) 6,996 (12) 6,278 (13)	244,445
Total Operating Expenses	<u>\$1,552,039</u>	<u>\$61,057</u>	<u>\$67,874</u>	<u>\$1,545,222</u>
TOTAL PATIENT DAYS	<u>*21,243</u>	<u>-</u>	<u>594 (14)</u>	<u>20,649</u>

*Adjusted to 97% occupancy

TOTAL BEDS 60

JOLLEY ACRES HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-JOL-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$13,345	
	Other Equity	2,897	
	Nonallowable	1,874	
	Accumulated Depreciation		\$16,242
	Cost of Capital		1,874
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Loan Cost	6	
	Nonallowable	46	
	Cost of Capital		52
	To adjust loan cost and related amortization to allowable HIM-15-1, Section 2304		
3	Nonallowable	1,774	
	Medical Records		1,774
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304		
4	Nonallowable	8,722	
	Dietary		1,749
	Medical Records		2,487
	Medical Supplies		4,486
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304		
5	Retained Earnings	3,750	
	Nursing		2,744
	Restorative		121
	Dietary		412
	Laundry		87
	Housekeeping		98
	Maintenance		61
	Administration		227
	To properly charge salaries and related benefits applicable to the prior period HIM-15-1, Section 2302.1		

JOLLEY ACRES HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-JOL-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Accrued PTO	3,061	
	Nursing		2,017
	Restorative		122
	Dietary		313
	Laundry		71
	Housekeeping		143
	Maintenance		67
	Administration		265
	Medical Records		58
	Nonallowable		5
	To adjust PTO accrual to allowable HIM-15-1, Sections 2302.1 and 2304		
7	Laundry	36	
	Nonallowable	10,446	
	Nursing		6,844
	Restorative		457
	Dietary		1,279
	Housekeeping		593
	Maintenance		293
	Administration		871
	Medical Records		145
	To adjust workers' compensation expense to allowable HIM-15-1, Section 2304		
8	Medical Records	2,070	
	Nonallowable	15,114	
	Restorative		17,184
	To reclassify salaries and related benefits to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
9	Nonallowable	1,460	
	Dietary		10
	Medical Supplies		1,450
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

JOLLEY ACRES HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-JOL-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Housekeeping	359	
	Maintenance	263	
	Administration	352	
	Utilities	308	
	Taxes and Insurance	160	
	Cost of Capital	230	
	Nonallowable		1,672
	To reverse DH&HS adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
11	Nonallowable	2,561	
	Housekeeping		359
	Maintenance		264
	Administration		497
	Utilities		314
	Taxes and Insurance		898
	Cost of Capital		229
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
12	Maintenance	683	
	Utilities	2,859	
	Taxes and Insurance	5,462	
	Administration		2,008
	Nonallowable		6,996
	To adjust home office cost allocation to allowable HIM-15-1, Sections 2304 and 2150		
13	Cost of Capital	6,278	
	Nonallowable		6,278
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		

JOLLEY ACRES HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-JOL-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
14	Memo Adjustment: To decrease total patient days by 594 to 20,649		
	TOTAL ADJUSTMENTS	<u>\$84,116</u>	<u>\$84,116</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

JOLLEY ACRES HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-JOL-J5

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.0472</u>	<u>2.0472</u>	
Deemed Asset Value (Per Bed)	31,973	31,973	
Number of Beds	<u>40</u>	<u>20</u>	
Deemed Asset Value	1,278,920	639,460	
Improvements Since 1981	193,171	16,599	
Accumulated Depreciation at 9/30/95	<u>(400,043)</u>	<u>(18,281)</u>	
Deemed Depreciated Value	1,072,048	637,778	
Market Rate of Return	<u>0.070</u>	<u>0.070</u>	
Total Annual Return	75,043	44,644	
Return Applicable to Non-Reimbursable Cost Centers	(530)	(317)	
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	74,513	44,327	
Depreciation Expense	16,011	15,680	
Amortization Expense	132	496	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(114)</u>	<u>(115)</u>	<u>Total</u>
Allowable Cost of Capital Expense	90,542	60,388	\$150,930
Total Patient Days (Minimum 97% Occupancy)	<u>14,389</u>	<u>6,260</u>	<u>20,649</u>
Cost of Capital Per Diem	\$ <u>6.29</u>	\$ <u>9.65</u>	\$ <u>7.31</u>

JOLLEY ACRES HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-JOL-J5

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$2.19	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$6.18</u>	<u>\$9.65</u>
Reimbursable Cost of Capital Per Diem		*\$7.23
Cost of Capital Per Diem		<u>7.31</u>
Cost of Capital Per Diem Limitation		\$ <u>(.08)</u>

* (14,389 x \$6.18 + \$60,388) ÷ 20,649